

FSC-17-A	2/1/96	TO: ROM
SUBJECT: EDLP Agreement Procedures		
DISTRIBUTION:		
<input checked="" type="checkbox"/> AVP	<input checked="" type="checkbox"/> KAM	<input type="checkbox"/> ELM
<input checked="" type="checkbox"/> RSM	<input checked="" type="checkbox"/> Reg.Mil./DF Mgr.	<input type="checkbox"/> MIL
<input checked="" type="checkbox"/> RBM	<input type="checkbox"/> DM	<input type="checkbox"/> DF
<input checked="" type="checkbox"/> ROM		<input type="checkbox"/> REP

In your recent annual meetings you were apprised of our new Best Value/Monarch EDLP Agreement developed for your use in Level II and III Merchandising partners, primarily retail chains, that are either too small to justify their own Forsyth Private Label brand or whose supplier does not carry a Forsyth Private Label brand they could use as their EDLP. In addition to the information given to you at your annual meetings, below are the specifics relating to reporting/payments.

Old Best Value/Monarch Agreements

Our previous Best Value/Monarch Agreements had only one option for payment of \$1.50 per carton. The designations in TPS were B VAL CONTRACT and MON CONTRACT. If you had a Sales Area approved exception for a higher amount you had to manipulate the actual cartons reported on AIM to a higher level to make the payment request coincide with the amount owed the account. The new reporting procedure in TPS will eliminate the need to do this and at the same time give us an accurate read of cartons sold under this program. Therefore, you should use the old reporting procedure only through February 29, 1996, to cover any payments due on volume generated through December 31, 1995. The old reporting procedure can not be used for any volume generated for 1996. These two designations will be deleted from TPS at that time.

New Best Value/Monarch EDLP Agreement

All accounts previously signed under the old Best Value/Monarch Agreements must be resigned along with any new accounts approved by your AVP for 1996. This will give you a chance to update the accounts with which you have an EDLP Agreement, as well as allow your Sales Area and the Savings Business Unit a chance to track the impact of this program against your Consumer Pricing Budget.

New EDLP Agreement Reporting Procedures

Previous direction was given to you to make the payments under this Agreement on a quarterly basis to reduce the administration of the program. While this is still preferred, you have the flexibility to pay your accounts on a monthly basis if necessary.

There will be seven price break designations each for Best Value/Monarch loaded into your HH/Poquets and office computers by February 5, 1996 to accomplish these payments. You should make every attempt to stay within these price breaks so additional entries will not have to be added. These are listed below:

EDLP MON \$1.50	EDLP BV \$1.50
EDLP MON \$2.00	EDLP BV \$2.00
EDLP MON \$2.25	EDLP BV \$2.25
EDLP MON \$2.30	EDLP BV \$2.30
EDLP MON \$2.40	EDLP BV \$2.40
EDLP MON \$2.50	EDLP BV \$2.50
EDLP MON \$2.60	EDLP BV \$2.60

If payments are requested through the ROU for a chain, you should run AIM data for the appropriate time frame to substantiate Best Value or Monarch volume for the affected chain. Submit the request to your ROU and they will have payment made through TPS. If payment is being made to a targeted retail independent as approved by your AVP, you should check invoices for the appropriate time frame, enter the volume under the correct price break designation in your HH/Poquet and then write a draft for the correct amount. Either way you do this, volume and costs will be captured for monitoring against your Sales Area's Consumer Pricing Budget.

51844 9741

In addition, you will continue to have the standard HH/Poquet reporting values for Monarch and Best Value for use in non EDLP accounts until notified differently.

It is extremely important that we capture the EDLP volume and payments separate from accounts where we are using our normal consumer pricing (Ceiling Strategy). This will allow us to:

- Effectively monitor the program's success
- Forecast potential Forsyth volume upside/downside
- Forecast budget allocations
- Monitor financial impact

We believe this new EDLP program will increase your flexibility when working with our Level II and III Merchandising partners as well as grow our Best Value and Monarch business in targeted accounts.

Program Contacts: Your Area Manager of Operations
Charlie Davis, extension #3315
Jim Farmer, extension #0470

R. J. REYNOLDS TOBACCO COMPANY

51844 9742